

BLACK HAWK MINING LTD.

(No Personal Liability)

Annual Report

FOR THE PERIOD ENDED DECEMBER 31, 1965

BLACK HAWK MINING LTD.

(NO PERSONAL LIABILITY)

OFFICERS

John Kostuik, B.Sc. President
The Honourable Harry A. Willis, Q.C. Vice-President
A. F. Risso Secretary-Treasurer
A. F. Casselman Assistant Secretary-Treasurer

DIRECTORS

John Kostuik, B.Sc. Toronto
Marsh A. Cooper, M.A. Toronto
Joseph A. Patrick New York
Joseph J. Rankin Toronto
A. F. Risso Toronto
Anthony Roman Toronto
The Honourable Harry A. Willis, Q.C. Toronto

MINE MANAGER

T. D. Anderson, B.Sc. Blue Hill, Maine

SOLICITORS

Manley, Grant & Armstrong
Toronto, Ontario

TRANSFER AGENTS

The Guaranty Trust Company of Canada
Montreal, Quebec

AUDITORS

Soupcoff, Starkman, Kraft & Co.
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

HEAD OFFICE

Suite 804
Place Victoria
Montreal, Quebec

EXECUTIVE OFFICE

20th Floor
4 King Street West
Toronto, Ontario

MINE OFFICE

Blue Hill, Maine, U.S.A.

President's Report

TO THE SHAREHOLDERS:

An annual meeting of the shareholders of Black Hawk Mining Ltd., will be held on Friday, April 29, 1966, at 11:30 a.m. Eastern Standard Time, in the Prince of Wales Room of the Windsor Hotel, Montreal, Quebec.

Notice of the meeting is enclosed for your attention, together with an instrument of proxy, the consolidated balance sheet of the Company and its wholly-owned subsidiary as at December 31, 1965, and the consolidated statements of exploration and development and corporate expenses for the period ended that date, as reported on by the Company's auditors. In accordance with a resolution passed at the Annual and Special Meeting of the shareholders held on July 29, 1965, the fiscal year end of the Company was changed from April 30 to December 31, hence the attached financial statements cover the period of eight months from May 1, 1965 to December 31, 1965.

As reported in our letter of July 12, 1965, debentures with a face value of \$2,000,000 were sold to Denison Mines Limited and the resulting funds were used in part to retire \$1,500,000 of the Company's 6½ % Secured Notes. Debentures with a face value of \$375,000 have since been sold to Denison Mines Limited.

The progress report dated March 10, 1966 is duplicated for the benefit of shareholders who have not received it.

"Black Hawk Mining Ltd., 44% owned associated company of Denison Mines Limited, has under leases or owns the mineral rights on 717 acres in Hancock County, State of Maine, U.S.A. It has concluded the first phase of its plant programme and underground development the latter consisting of sinking a three-compartment shaft to a depth of 698 ft. with stations at the 280-ft., 380-ft., 480-ft., 580-ft. and 680-ft. horizons. Exploration and development work has been done on the 380-ft., 480-ft. and 580-ft. levels, totalling 2,738 ft. of crosscuts, 4,631 ft. of drifting, 1,098 ft. of raises and 19,964 ft. of underground diamond drilling to January 31, 1966, and has confirmed the ore reserves, indicated by surface drilling for the area developed. Of the 233 acres covered by surface diamond drilling, 45 acres or 6% of the property has been explored underground.

Mr. Walter Brown, B.Sc., P.Eng., consulting engineer, reports that the work on the zinc orebody to January 31, 1966 has disclosed 700,000 tons with a grade of 14.32% zinc and 0.54% copper, at 30% dilution. Lying underneath this zinc zone, and readily accessible, is a portion of the Lower Second Pond zone containing 170,000 tons of copper ore with a grade of 2.55% copper and 0.51 ozs. silver, dilution at 20%. The Mammoth zone copper ore to the West contains 330,000 tons at 1.77% copper, 0.51 ozs. silver with dilution at 20%.

These reserves are all above the 780-ft. level, with a very minor portion between the 580 and 780-ft. levels, and exclude the amount required for a surface pillar. Undoubtedly, considerable additions to these tonnages will be made. For example, underground work to the East of the main crosscut, accomplished since the consultant's report, has indicated that the zinc zone could be expanded a further 150,000 - 250,000 tons.

There is also a reserve of about 350,000 tons of lead-silver ore outlined with an indicated grade of 7% lead and 4.5 ozs. silver per ton, the economics of which have not been considered in the consultant's report.

In addition, there has been outlined 765,000 tons of zinc, mixed copper and zinc and copper mineralization which, at \$0.145 U.S. per pound for zinc and \$0.38 Cdn. for copper used in the report, is marginal. It is very possible that this tonnage will be mined at a later date or if copper prevails at present prices.

No development work has been done on the Douglas copper zone which, from previous surface diamond drilling, indicated 1,025,000 tons with a grade of 1.63% copper and 0.40 ozs. silver, dilution at 20%.

Metallurgical test-work from diamond-drill core has indicated that recoveries of 90% of the zinc and 60% of the copper from the zinc ore and 90% recovery of the copper from the copper ore can be achieved, in a concentrate of good grade. Complete metallurgical tests on suitable mine samples are being done by Lakefield Research. In addition, a feasibility study is being made on the production of pyrite concentrate for which inquiries have been received.

The undulating nature of the zones, particularly that of the zinc, has required that dilution factors be applied totally unrelated to the excellent roof and wall strengths within the mine. Operating costs are estimated at \$10.70 Cdn. for the zinc ore, \$9.88 for the Lower Second Pond zone and \$9.05 Cdn. for the Mammoth zone.

The consulting engineer reports that the confirmed ore reserves are sufficient to bring the property into operation on the basis of 500 tons of zinc ore and 100 tons of copper ore per day. With recoveries as previously noted and at prices of \$0.145 U.S. per pound for zinc and \$0.38 Cdn. for copper, the operating profit per year is estimated at \$2,132,000 Cdn.

Preproduction and capital costs to January 31, 1966 are \$2,414,000. A further \$3,445,000 is required to prepare the plant for production rate of 600 tons per day, including inventory, interest and working capital.

The consulting engineer recommends, initially, a plant of 600 tons per day to treat 180,000 tons of zinc ore per year and 36,000 tons of copper per year provided that satisfactory arrangements with the American Government can be made to import at least 75 experienced men for the operation and provided that arrangements for suitable housing, at little or no cost to the company, be made. He further recommends the shaft be deepened 215 feet, with auxiliary ore-pass and ventilation systems."

Since the report, bench scale flotation tests by Lakefield Research of Canada have been completed on the massive zinc ore. Results were satisfactory and higher than previously indicated. Recovery of 93% in a concentrate assaying 55% was achieved. Higher recoveries for the copper ore were obtained at 92% in a concentrate assaying 25% copper. Recoveries would be increased with recirculation of cleaner tailings. Further work on copper and copper-zinc ores is planned to establish optimum conditions.

The work underground was limited to the extension of the zinc zone to the East of the main crosscut on the 380-ft. horizon. The drift was advanced a further 242.5 ft. showing 23.66% zinc over 5.5 feet. In addition, a raise approximately 350 feet from the end of the drift was extended 200 feet and assayed 22.31% zinc over 7.1 feet. To explore the down-dip extension of this zone a raise is planned to be driven from the 580-ft. horizon. No revision to the past ore reserve can be made until this minimal work is completed.

Preliminary discussions have taken place with governmental authorities and the necessary briefs and reports regarding work permits and On-The-Job-Training programmes are being prepared for formal presentation.

Submitted on Behalf of the Board of Directors,

Toronto, Ontario,
April 12, 1966.

JOHN KOSTUIK,
President.

BLACK HAWK

(No Personal Liability)

AND ITS WHOLLY OWNED SUBSIDIARIES

BLACK HAWK MINING LTD.

Consolidated Balance Sheet

ASSETS

Current Assets:

Cash	\$ 50,275	
Accounts receivable	3,694	
Prepaid expenses	9,421	
Materials and supplies on hand, at average cost	29,176	\$ 92,566

Statutory Deposit:

Province of Quebec \$1,000 Bond, at cost		862
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Fixed Assets, at cost (Notes 4, 5 and 6):

Mining claims and mining rights	\$ 60,370	
Lands, roads and leased properties	127,380	
Buildings, machinery and equipment	720,637	908,387

Deferred Expenses:

Exploration and development expenses — Schedule "A"	\$1,247,498	
Corporate expenses — Schedule "B"	265,446	
Organization expenses	5,441	
Bond discount and financing expenses (Note 1)	188,409	1,706,794

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board,

JOHN KOSTUIK, Director.

A. F. RISSO, Director.

\$2,708,609

AUDIT

To the Shareholders of
BLACK HAWK MINING LTD.
(No Personal Liability)
Montreal, Quebec

We have examined the consolidated balance sheet of BLACK HAWK MINING LTD. and its wholly owned subsidiaries, and the deferred exploration and development expenses and deferred corporate expenses. Our opinion is based on the evidence as we considered necessary in the circumstances. We have relied on the representations of management.

In our opinion, the accompanying consolidated balance sheet together with the deferred exploration and development expenses and deferred corporate expenses present fairly the financial position of the company at the end of the period, in accordance with the principles applied on a consistent basis.

Toronto, Ontario.
January 10, 1966.

MINING LTD.

(Liability)

ED SUBSIDIARY

CORPORATION

December 31, 1965 (Note 7)

LIABILITIES

Current Liabilities:

Accounts payable and accrued charges \$ 69,785

Long-Term Debt:

6½ % Debentures Series A, due June 30, 1974 (Note 1) 2,100,000

\$2,169,785

Capital Stock (Notes 1 and 2):

Authorized:

5,000,000 shares with a par value of \$1.00 each \$5,000,000

Issued and fully paid:

900,000 shares for mining claims and options thereon \$ 900,000
Less: Discount thereon 840,000 \$ 60,000

400,000 shares for acquisition of wholly-owned subsidiary \$ 400,000
Less: Discount thereon 373,031 26,969

2,719,009 shares for cash \$2,719,009
Less: Discount thereon 2,267,154 451,855

4,019,009 shares 538,824

\$2,708,609

REPORT

D. (No Personal Liability) as at December 31, 1965 and the schedules of consolidated
mination included a general review of the accounting records and other supporting
e auditors who have examined the financial statements of the subsidiary company.

s attached and the schedules of consolidated deferred exploration and development
nies as at December 31, 1965 in accordance with generally accepted accounting

SOUPCOFF, STARKMAN, KRAFT & CO.

Chartered Accountants.

(No Personal Liability)

December 31, 1965

6. Leased properties are held under annually renewable leases requiring rental payments and a 5% participation in the net value, as defined in the various leasing agreements, of the minerals and metals removed from the leased premises.
7. During the period, the fiscal year end date of Black Hawk Mining Ltd. (No Personal Liability) was changed from April 30 to December 31.

SCHEDULE "A"

BLACK HAWK MINING LTD.

(No Personal Liability)


CONSOLIDATED DEFERRED EXPLORATION AND DEVELOPMENT EXPENSES**For the eight months ended December 31, 1965 (Note 7)**

	From Inception to April 30, 1965	Eight Months Ended December 31, 1965	From Inception to December 31, 1965
Quebec:			
Prospecting, developing and surveying	\$ 29,401	\$ 125	\$ 29,526
Diamond drilling, mapping and assaying	40,379	1	40,380
General field expenses	1,103	49	1,152
	<u>\$ 70,883</u>	<u>\$ 175</u>	<u>\$ 71,058</u>
Maine:			
Prospecting, developing and surveying	\$ 23,376	\$ 2,891	\$ 26,267
Diamond drilling, mapping and assaying	235,358	28,564	263,922
Shaft sinking and underground development	242,688	460,207	702,895
General field expenses	89,043	94,313	183,356
	<u>\$590,465</u>	<u>\$585,975</u>	<u>\$1,176,440</u>
	<u>\$661,348</u>	<u>\$586,150</u>	<u>\$1,247,498</u>

SCHEDULE "B"

CONSOLIDATED DEFERRED CORPORATE EXPENSES**For the eight months ended December 31, 1965 (Note 7)**

	From Inception to April 30, 1965	Eight Months Ended December 31, 1965	From Inception to December 31, 1965
Registrars' and transfer agents' fees and expenses	\$ 3,355	\$ 1,910	\$ 5,265
Legal and audit fees and expenses	36,887	10,168	47,055
Capital and place of business tax	279	91	370
Interest on secured notes	23,097	33,177	56,274
Interest on debentures	—	43,452	43,452
Administrative salaries, communications, stationery and office supplies, rent, taxes, insurance and general office expenses	53,163	27,728	80,891
Travelling expenses	17,691	2,762	20,453
Loss on disposal of fixed assets	1,572	—	1,572
General expenses	8,878	1,236	10,114
	<u>\$144,922</u>	<u>\$120,524</u>	<u>\$ 265,446</u>
Summary:			
Schedule "A"	\$661,348	\$586,150	\$1,247,498
Schedule "B"	\$144,922	\$120,524	\$ 265,446
	<u>\$806,270</u>	<u>\$706,674</u>	<u>\$1,512,944</u>



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